



Memorandum # 25/2003

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission Five Middlesex Avenue, Third Floor, Somerville, MA 02145 Ph 617 666 4446 | Fax 617 628 4002 | TTY 617 591 8917 | www.mass.gov/perac Robert E. Tierney, *Chairman* | A. Joseph DeNucci, *Vice Chairman* C. Christopher Alberti | Kenneth J. Donnelly | Eric A. Kriss | James M. Machado | Donald R. Marquis Joseph E. Connarton, *Executive Director*

MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Local Government Early Retirement Incentive Program

DATE: August 6, 2003

LOCAL GOVERNMENT EARLY RETIREMENT INCENTIVE

Section 116 of Chapter 46 of the Acts of 2003 establishes a local option to allow cities, towns, counties, authorities and districts to offer an Early Retirement Incentive Program (ERI) for eligible employees. The bill was signed on July 31, 2003 and became effective immediately. The purpose of this Memorandum is to provide guidance and assistance to the Retirement Boards who will be required to administer the law. Retirement boards can adopt supplemental regulations as necessary to administer the Section. Please forward a copy of this Memorandum to the Legislative and Executive Authorities in the governmental unit(s) in your system.

This ERI differs from the program approved last year. Significant changes and new provisions are noted in italics in this memorandum. Boards should carefully review this memorandum to assure that these changes are fully understood.

Local Option Acceptance

In order to establish an ERI under the Section, a city, town, county, authority or district must accept the provisions of the Section by a vote of:

- (1) the Legislative Authority; and
- (2) the Executive Authority.

Each governmental unit within the system has the ability to accept the Section.

In a city, the Legislative Authority is the City Council and the Executive Authority is the Mayor. In a town, the Legislative Authority is the Town Meeting or Town Council as appropriate and the Executive Authority is the Selectmen. In a county, the Legislative Authority is the County Advisory Board or County Commissioners as appropriate and the Executive Authority is the County Commissioners. In an authority, the Legislative Authority and the Executive Authority

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is the governing board of the authority. In a district, the Legislative Authority and the Executive Authority is the district meeting. In a regional school district whose employees are members of the State Retirement System, the Legislative Authority and the Executive Authority is the Regional District School Committee.

The Selectmen of a town may call a special town meeting on their own volition and must call a special town meeting upon the request in writing of 200 registered voters or 10% of the registered voters in town, whichever is less. At least seven days notice must be given of the special town meeting and the special town meeting made upon submission of signatures must be held no more than 30 days after the Selectmen's receipt of the request.

If the Town Meeting or Town Council fails to accept the Section by October 1, 2003, the Board of Selectmen can accept the Section on behalf of the town without the Town Meeting or Council's approval.

It is not necessary for the retirement board to accept the Section in order for it to become effective.

The Legislative Authority and the Executive Authority must accept the provisions of the Section on or before November 1, 2003.

Eligibility of Employees to Participate

In order to be eligible to participate in an ERI in a city, town, county, authority or district that has accepted the provisions, an individual:

- must be an employee of the city, town, county, authority or district and an active member
 in service of the appropriate city, town, county or regional retirement system or shall be
 an employee of a regional school district and an active member in service of the State
 Retirement System on the date of the city, town, county, authority or district, or regional
 school district's acceptance of this Section; and
- must be eligible to receive a superannuation retirement allowance in accordance with G.L. c. 32, § 5(1) or G.L. c. 32, § 10(1) on the effective retirement date specified in his or her written retirement application to the retirement system; and
- must have filed a written application with the applicable retirement system as described below; and

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• must be classified in Group 1, Group 2 or Group 4 for retirement purposes.

Eligible elected officials can participate in this ERI.

Eligibility for participation in the ERI must exist prior to the addition of the additional years of age and/or service granted by the ERI. A member may use creditable service purchased for military service pursuant to G.L. c. 32, § 4(1)(h) or other service which is purchased in accordance with G.L. c. 32 to meet the eligibility criterion of the Section if the buyback is complete on the effective date of retirement.

Employees who were eligible to participate in the Judiciary ERI, state employees who were eligible to participate in a State ERI, members of the State Retirement System (other than employees of a regional school district who are active members in service of the State Retirement System), teachers who are members of the Teachers' Retirement System or the Boston Retirement System or *employees of any sheriff's department* are not eligible to participate in this ERI. Certain employees of the Essex County Sheriff's Department are entitled to early retirement under a different Section of this Act.

Eligible employees of a city, town or county retirement board may participate in the ERI, if the city, town or county legislative authority and Executive Authority accept the provisions of this Section. In a regional retirement system for the purpose of accepting the Section for employees of the regional retirement board, the Legislative and Executive Authority is the regional retirement board.

Additionally, non-teacher employees of the Essex Agricultural and Technical Institute, the Minuteman Regional School District, the Blue Hills Regional School District and the Greater Lawrence Sanitary District may, subject to Executive and Legislative Authority approval, participate in this program. The appropriate district board (or board of trustees or school committee) is both the Legislative and Executive Authority for these entities.

An eligible employee who retires and receives an additional benefit in accordance with the ERI shall be deemed to be retired for superannuation and shall be subject to all of the provisions of G.L. c. 32, except for the provisions of G.L. c. 32 which require employees classified in Group 2 to have attained age 55 on the date of termination of service in order to receive a Group 2 benefit. Any employee eligible for the ERI who is classified in Group 2 and who is at least 50 years of age but not yet 55 years of age, shall be eligible for a retirement allowance equal to that proscribed for a member classified in Group 2 upon the application for the additional benefit.

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Age and Creditable Service Enhancements and Limitations

An eligible participant's retirement allowance shall be calculated in accordance with the provisions of G.L. c. 32, § 5 using the member's age and creditable service at the time of retirement, enhanced by adding up to: five years of age or five years of creditable service, or a combination of age and creditable service, the sum of which shall not be greater than five years. Members can utilize whole years of age or creditable service or may break those years down by years and months for the additional age or creditable service provided by the Section.

The Executive Authority may limit additional credit for age and service or the combination of age and service that will be offered. The Executive Authority can also limit the total number of employees who can participate in the ERI or the total number of employees within each Group Classification who can participate in the ERI and thus the Executive Authority may exclude an entire Group from participation in the ERI. If participation is limited, the retirement of employees with greater years of creditable service shall be approved before approval will be given to those with lesser years of creditable service. When determining which employees have the greater amount of creditable service, all creditable service is to be considered, including creditable service for employment in another G.L. c. 32 retirement system.

<u>Further, both the Legislative and Executive Authority together can designate the municipal departments that can participate in the program.</u>

In no event may the sum of the years of creditable service and age added by the Section total more than five years.

Veterans who add years of creditable service using the Section are entitled to \$15/year on that added creditable service under G.L. c. 32, §5(2)(b) up to the maximum of \$300.

Application Dates and Effective Dates of Retirement

Eligible employees may file applications for retirement under the ERI no later than a date that the Executive Authority determines, but no later than December 2, 2003. The effective date of all such retirements shall be determined by the Executive Authority and shall be no later than December 31, 2003. The effective date for the retirement of any elected official shall be no earlier than December 1, 2003.

The effective date of retirement for employees of a city or town Retirement Board shall be thirty days after the retirement date for city or town employees as determined by the Executive

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Authority. The effective date of retirement for employees of a County Retirement Board or a Regional Retirement Board shall be January 30, 2004.

The Executive Authority must set one retirement date by which all employees receiving incentives under the Section must be retired, except for employees of the retirement board as discussed above. The Executive Authority may allow employees to retire before that retirement date if the Executive Authority has not set limits on the number of employees who can retire under this Section. If the Executive Authority sets limits on the numbers of employees who can retire under this Section, the Executive Authority must set one retirement date for all employees so that ranking based on creditable service can be determined.

Changes to Sick and Vacation Leave Payments

The Section authorizes the Executive Authority to negotiate agreements on any alterations in the payment of accrued vacation and sick leave to members retiring under the Section.

Notification to PERAC of Acceptance

As soon as <u>any</u> governmental unit within your system has accepted the ERI, the board must notify PERAC with the details of the acceptance. Please provide the date of acceptance, any limitation on the number of years added to age or service, any limitations on the number of members who may retire under the program, *any limitation on eligible departments within the governmental unit*, and the established date of retirement. This information should be provided to Lindsay Deaver at (617) 666-4446 extension 937; alternatively, you could provide this information via e-mail to Lindsay.M.Deaver@state.ma.us.

PERAC Analysis of Costs

PERAC will calculate the final cost for each system accepting the ERI. The report is due to be filed with the board by December 31, 2004.

PERAC will assist boards in estimating the potential impact of the ERI. We will be providing more detail with respect to performing this analysis at our seminars.

Alternatively, boards could seek the assistance of a private actuary to estimate the costs of the ERI and/or to determine the final cost of the ERI. Our interpretation of the legislation is that we could review costs calculated by other actuaries and reference those costs in our report. *In such cases, our report will be a one-page letter that signs off on the private actuary's work.*

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Funding Schedules

The law states that a system accepting the ERI provisions must revise its funding schedule to reflect the additional liabilities. We recommend amortizing the increase in liability over 15 years on a level dollar basis. This is the same methodology as required in the 1992 ERI and ensures that the bulk of the liability is paid during the retirees' lifetimes. Another alternative is to amortize the additional liability in the same manner as the current funding schedule. Ultimately, the methodology used will be determined by the board. Depending on timing, the cost of the ERI would first be reflected in either FY 2005 or FY 2006. The board must notify PERAC of the funding schedule chosen and the fiscal year it will become effective.

It is important to note that the increase in cost for a governmental unit accepting the ERI, will be the responsibility of only that governmental unit and will be reflected in the System's funding schedule and the allocated appropriation.

Regional Retirement Board Members

Any fifth member of a regional retirement board who is serving on the effective date of this Section is eligible for re-election as the fifth member despite the member being an employee, retiree or official of a governmental unit of the regional retirement system.

We trust the foregoing is of assistance. If you have further questions or concerns, please contact this office.